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SUBJECT: INVESTMENT CLIMATE STATEMENT FOR MALDIVES,  
SEPTEMBER 2003

REF: STATE 128494

1. The following is the 2004 Investment Climate Statement for the Republic of Maldives. This statement will be included in the Post's FY 2004 Maldives Country Commercial to be sent separately.

Begin text.

INVESTMENT CLIMATE STATEMENT  
MALDIVES, SEPTEMBER 2003.

Openness to Foreign Investment

2. The Republic of Maldives is made up of over 1,190 islands, of which 200 are inhabited and 87 are exclusive resort islands. The local population is about 280,000, and 470,000 tourists arrive annually. Between 1997 and 2002, the annual economic growth rate averaged 7.0 percent, powered mainly by growth in tourism and its spin-offs in transport, communication, and construction.

3. In the recent decades since tourism was introduced, the Maldives has welcomed foreign investment. The lack of codified law and of a predictable investment framework had, over time, dampened investor interest. This began to change with the passage of laws on foreign investment and the creation of institutions to deal with investment. The government of the Republic of Maldives introduced a Foreign Investment Services Bureau (FISB) in 1987, ([www.investmaldives.com](http://www.investmaldives.com)), within the Ministry of Trade, Industries and Labor. The FISB offers "one-stop shop" services to investors, and incentives, such as allowing 100 percent foreign ownership, duty exemptions and no exchange controls or restrictions on repatriation of profits. At present, personal income taxes are not imposed, though banks' profits are taxed and a corporate profit tax is under consideration for the end of the decade. Domestic and international arbitration is available for dispute settlement.

4. Foreign investment is governed by Law 25/79, passed in 1979, which provides for an agreement between the government and an investor setting out terms and conditions. A Law of Contract governs contractual relationships, and a separate law (no. 4/79) governs business and trading activities by foreign nationals. Investment agreements are for an initial period of 5 to 10 years for investments less than \$1 million, and can be renewed thereafter. For larger projects, terms are negotiable. Foreign investors will qualify for import duty concessions as specified by the FISB.

5. Currently there are several foreign investments in the Maldives, primarily in resort management, but also in accounting services, banking, telecommunications, air transport, courier services, and manufacturing.

6. The FISB encourages investment projects which: (1) are capital intensive; (2) enhance technology transfer; (3) introduce new skills and offer training to local employees; and, (4) are environmentally friendly. The FISB has identified several industries that offer potential for investors, which are summarized below.

Fisheries- fish processing is an attractive sector for foreign investment, particularly for new technology and capital investment. Opportunities also exist for marine product development, aquaculture including tropical fish farming and cultivation of seaweed, lobster, shrimp, reef fish and crab.

Financial- banking, accounting, and management consulting. The FISB is interested in bringing in more global banks (only HSBC is currently present). The present lack of adequate banking laws has deterred

entry.

Transport and other services- development of air and sea transport including inter-atoll transport services, bunkering, transshipment, and passenger cruises.

Infrastructure development- harbors and tourist resorts, residential/retirement islands for foreigners, health resorts, and time sharing plans. There are two major development plans in the government's docket. The first is a consolidation of services and infrastructure of the 20 atolls around five regional centers, two of which have already been established. The second is a capital project to alleviate overcrowding in Male'. Already reclamation and development of Hulhumale Island near Male' has commenced. Hulhumale will house 50,000 people when the project is completed in 30 years; 250 housing units will be completed by the end of 2003. The island, which will eventually will be physically linked to the airport island and will offer 125 acres of duty-free shopping in a bid to increase the Maldives' attraction for tourists. There will be opportunities in civil works in the above construction projects, road and bridge construction, domestic airport development, and seaport development.

Other sectors with potential include:

Tourism: opportunities exist in the entire range of services, including development and management of resorts, tourist activities, and land and sea transportation.

Telecommunications: Currently, Dhiraagu, jointly owned by Cable and Wireless and the Government of Maldives has a monopoly over telecommunications. A second cellular provider is expected to begin operations in early 2004. Discussions for a second ISP are underway, and Dhiraagu will be privatized starting in 2008.

Information Technology: The FISB would like to establish a "technology island" of sorts for software development and other IT activities. While the connectivity infrastructure is not yet in place to support such an operation, it is felt that the Maldives' climate, surroundings and pace of life would be attractive to software developers.

Petroleum exploration; marine-based agriculture; handicrafts; export-oriented manufacturing, health services, tele-medicine, educational services, horticulture.

Sectors closed to investment: Trading (i.e., shipping and transport of goods) and the production of any items illegal to import into the Maldives (most notably alcohol).

#### Conversion and Transfer Policies

17. There are no exchange controls or restrictions on currency movements. Repatriation of funds and profits is allowed, after local debts are settled. Major international currencies can be bought and sold at banks and authorized money changers, and major credit cards and traveler's checks are accepted by hotels and banks. Foreign-currency accounts are available in banks. The US dollar is the most widely used foreign currency, and is accepted by small shops and taxi drivers in Male'.

18. The official exchange rate is set at 12.75 Rufiyaa to the dollar. The currency underwent an 8.3 percent devaluation in 2001 after staying at 11.77 Rufiyaa to the dollar for several years. The Maldivian currency is non-convertible and its true value cannot be determined. The Government has noted that it will need to review the exchange rate policy in the next few years in order to promote export diversification. The heavy dependence on imports is a constraint for management of exchange rate. Businesses have occasionally reported hard currency shortages and difficulty obtaining dollars at banks.

19. Foreign reserves at end of 2002 were \$135 million or about 4.1 months of imports compared with \$95 million or about 3.1 months of imports at the end of 2001.

#### Expropriation and Compensation

10. According to the Law on Foreign Investment, the

Government may, with or without any given notice, suspend an investment, either where the investor indulges in an act detrimental to the security of the country or where temporary closure is necessary in the interest of national security. Temporary closure would not lead to Government of Maldives or Maldivian nationals incurring any liabilities. If after due investigation, it cannot be concluded within 60 days of the temporary closure that the foreign investor had indulged in an activity detrimental to the security of the Maldives then the Government will pay fair compensation. Capital belonging to an investment that is closed for the above reasons are permitted to be taken out of the country in a mutually agreed manner. There does not appear to be any risk of expropriation in the near future.

#### Dispute Settlement

11. The sources of law in the Maldives are its constitution, Islamic Sharia law and international law. Judicial matters are referred to Courts in Male' or on other islands presided over by Magistrates. The High Court of Justice, headed by the Chief Justice, is the highest court. There is also the right to appeal to the President in the event of dissatisfaction with the decision of the High Court. Though legal practices are adequate with a number of overseas-trained lawyers, the judicial process is slow. The law on foreign investments guarantees the security of investments. Disputes involving investments below \$1 million can be referred to the courts of law in the Maldives. Disputes over \$1 million can be referred for international arbitration.

12. Recognizing that the existing legal and commercial framework is underdeveloped and not always fully transparent or predictable, the government is promoting administrative reforms and formulating regulations dealing with labor, the environment and industry. In recent years, the People's Majilis legislative body has enacted a number of commercial laws, including the law of contract, the Negotiable Instruments of Law, and the Companies Act, and amended the tourism law to conditionally extend the 25-year resort lease period to 50 years.

13. The Republic of Maldives is not a member of the International Center for the Settlement of Investment Disputes (ICSID).

#### Right to Private Ownership and Establishment

14. There is little private ownership of land. Land reform currently under consideration may result in more trade and private ownership of property. Foreign investors are not allowed to own land, but are granted lease rights ranging up to 25 years, which can be later extended to 35 years for investments over \$10 million, or 50 years if 50 percent of the company's shares are floated on the Maldives trading floor. Leases can be renewed at the end of their terms, but the formula for assessing compensation value of a resort at the end of a lease has not yet been developed.

#### Protection of Property Rights

15. The Maldives lacks specific legislation to protect intellectual property rights (IPR) and has not signed on to international agreements and conventions. The Government is seeking assistance from the World Intellectual Property Organization (WIPO) to develop IPR laws and regulations. Consumers of computer software reportedly appreciate the value of genuine products, as pirated software programs often contain bugs and viruses.

#### Efficient Capital Markets and Portfolio Investment

16. The financial services sector in the Maldives is not particularly well-developed or sophisticated. The banking system consists of the Maldives Monetary Authority which acts as the Central Bank, and five commercial banks. HSBC, the only global bank present, set up operations in 2002. Local sources of finance are limited in scope because of the small size of the capital market and the lack of instruments that are available in more developed nations. Certificates of Deposits are the only instruments to absorb excess liquidity from Commercial banks. There are no financial instruments on offer to the public sector. The commercial banks provide short term and long term

credit to private sector. No specialized financial institution exists to meet the investment needs of tourism, agriculture and fisheries. Non-performing loans are about 10 percent and the risk weighted capital adequacy ratio is high. Most foreign currency loans are made to foreign currency-earning tourist enterprises. The Maldives Monetary Authority has introduced an emergency liquidity facility for commercial banks. Banking supervision has been recently upgraded, moving toward international best practices.

17. There are no organizations such as a Securities Exchange Commission, though it is contemplated for the future. A small trading floor opened in the Maldives in April 2002. There are hopes that the stock exchange will facilitate the development of a capital market. A leasing company was formed in 2001 with private and public investment and support from the International Finance Corporation. The Asian Development Bank will support strengthening the financial sector to more effectively mobilize savings and fund long term development.

#### Political Violence

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18. The Maldives has a strong record of political stability resulting from the homogenous nature of a society of one culture, one religion and one language. Ethnic and political unrest that can disrupt economic activities is rarely experienced in the Maldives. The current President has been in office since 1979.

#### Corruption

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19. An anticorruption board has the authority to investigate corruption related to government employees. From 1990-2000, the board received 480 complaints. The board has fined employees in 111 cases.

#### OPIC and Other Insurance Programs

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20. Currently, OPIC does not operate in the Maldives. The Maldives is also not a member of the Multilateral Investment Guarantee Agency of the World Bank Group.

#### Labor

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21. Trained, as well as unskilled, labor can be scarce and expatriate labor is allowed in order to meet shortages. There are an estimated 30,700 expatriate workers, mostly in tourism, construction and social and personal services, holding skilled and unskilled jobs. Using expatriate labor is equally or more expensive than local labor. Salaries are lower but travel and benefit costs make overall costs higher.

22. Wages in the private sector are usually set by contract between employer and employee and are usually based on rates for similar work in the public sector. Employment contracts usually specify work hours on a weekly or monthly basis. Employees are usually authorized 20 days of annual leave, 30 days of medical leave, 45 days' maternity leave, and 10 days of special annual leave for "extraordinary circumstances." There are no laws governing health and safety conditions; however, there are regulatory requirements that employers provide a safe working environment and ensure the observance of safety measures.

23. Although unions are not expressly prohibited, the Government does not recognize the right to form unions, or the right to strike. Hence, labor actions and disputes are rare. The US Government in 1995 suspended the Maldives' eligibility for tariff preferences under the US Generalized System of Preferences because the Government failed to take steps to afford internationally recognized worker rights to Maldivian workers. The Government--with assistance from the International Labor Organization--has drafted proposed new labor laws dealing with rights of association, the right to organize, and acceptable conditions of work but the Government has not taken any action to implement the laws.

24. Foreign Investment: US firms represented in the Maldives include Western Union, FedEx, UPS, Hewlett Packard (HP), Gateway, Dell, Compaq, Coca-Cola, American Express, Hilton resorts, SeaTec, Ernst and

Young, Price Waterhouse Coopers and KPMG.  
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